

# Committee on Ways and Means

## ***Tax Reform: System Should Be Simpler, Fairer, More Pro-Growth***

*“The current Federal tax system is unnecessarily complex and distorts incentives for work, savings, and investment. As a result, it imposes large burdens on taxpayers and on the U.S. economy as a whole in the form of high compliance costs and distortions in economic decisions.”*

*– Economic Report of the President, February 2005*

Changes to make the tax system more efficient would improve incentives to work and invest, and would result in economic growth, new job creation and long run improvements in the overall standard of living. The President’s Advisory Panel on Federal Tax Reform is studying the best way to achieve these goals and will issue its recommendations by July 30, 2005.

### **The tax system distorts incentives for work, savings, and investment.**

- Higher marginal tax rates on income from investment and labor distort incentives to do either, resulting in slower overall economic growth. The tax reductions of 2001 and 2003 made progress toward lower rates, but there is more work to do.
- Because of compliance costs and disincentives for productive activity, an additional dollar in individual income tax revenue has been estimated to cost the economy 30-50 cents. (*Source: White House Council on Economic Advisers* )
- A recent study has shown that reducing individual income taxes on small business owners made the businesses more likely to grow faster and hire more workers. (*Source: Carroll, Holtz-Eakin, Rider, and Rosen, 2000, “Personal Income Taxes and the Growth of Small Firms”*)

### **The tax system is unnecessarily complex.**

- The IRS estimates that in the year 2000, Americans spent 3.2 billion hours and between \$67 and \$99 billion organizing and paying their taxes. (*Source: Guyton, O’Hare, Stavrianos, and Toder, 2003, “Estimating the Compliance Cost of the U.S. Individual Income Tax”*)
- There are more than 150 tax exemptions, rebates, and deductions in the tax code that add to the level of complexity and compliance burden. (*Source: Joint Committee on Taxation, Estimates of Federal Tax Expenditures for Fiscal Years 2005-2009*)

### **The tax code needs to be made fairer and simpler for everyone.**

- The Earned Income Credit (EIC), which provides a subsidy to low-income earners, has more than 13 pages of complicated instructions and results in as much as a 32-percent error rate in filing for the credit because of widespread confusion over who qualifies. (*Source: IRS, Compliance Estimates for Earned Income Tax Credit Claimed on 1999 Returns*)
- If unaddressed, the Alternative Minimum Tax (AMT) is projected to hit one in five taxpayers by 2010. Millions more middle income Americans will be affected by the need to calculate their taxes twice, even if they don’t pay the AMT. The mere existence of the AMT places an undue burden on middle income Americans.